RIK Refiner Mtg 3/27/98

Linda Shishido	MMS/OE	303-231-3072
Mary Turton	MMS/RIK	303-231-3665
Dave Domagala	MMS/RVD	303-275-7255
Don Gilman	MMS/ARD	(303) 231-3872
Robert Prael	MMS/RIK	(303) 231-3217
Jim McNamee	MMS/RIK	(303) 275-7126
Don Hamilton	GWEC	(303)-773-2301
Dennis Cernosek	Placid Refining	504-346-7499
Rodney Nelson	Calcasieu	(713) 652-0022
Bob Neufeld	Wyoming Refining	(303) 894-9966
Spencer Zinn	Wyoming Refining	(303) 894-9966 [redacted]
Tom Sansonetti	Holland & Hart	307/778-4235
Vern Ingraham	MMS	303 - 231-3166 [redacted]
Debbie Gibbs Tschudy	MMS-RVD	303-275-7200
Kenneth Vogel	MMS-OE	303-231-3749

MAR 20

AD/OE
Mail Stop 3030

Mr. Luke Wethers
Giant Industries Arizona Inc.
23733 North Scottsdale Road
Suite 329
Scottsdale, Arizona 85255

Re: Small Refiner Royalty-in-Kind Program

Dear Mr. Wethers:

This letter is in response to your March 9, 1998, requesting resolution of several issues involving retroactive pricing, and future deliveries. We understand that retroactive price adjustments are the most important issue and would impact you the greatest. However, the Minerals Management Service (MMS) can not agree that retroactive price adjustments will not occur. We believe we must separate the issue of past pricing from the issue of making future pricing more business-like.

With regards to future deliveries, if MMS can agree on a final price, the invoiced price will not be subject to audit in the future.

Administrative fees will be adjusted according to changes in cost. MMS can not guarantee that fees will be lower for future deliveries. At this time, MMS is unable estimate or provide to you the future administrative fees. However, while our costs may go up temporarily, we do not intend to raise them during this fiscal year.

Your proposal to reduce the letter of credit requirements are valid. We are currently reviewing the options and will be able to discuss them in more detail in our next meeting.

We would still like to meet with the you on March 27, 1998, to discuss these issues and options. The meeting will take place at 9:00 a.m. in the Auditorium, Building 85, Denver Federal Center. To make the this meeting as useful as possible, we had hoped that you could be prepared with whatever market information you hoped to use (especially to the extent you hoped to use a benchmark other than spot prices). To the extent that you intend to propose the use other price benchmarks, it will greatly increase the effectiveness of our meeting if you could share those proposed benchmarks, along with the data to support the proposal and the leases to which you believe they should apply.

If you have any questions, regarding location of the meeting or hotel accommodations, please call Linda Shishido at 303-231-3072. If you have any questions regarding this meeting, please do not hesitate to call me. We look forward to seeing you.

Sincerely,

Kenneth R. Vogel
Chief, Office of Enforcement

(PROPOSED LEGISLATION)

RATIFICATION OF PAYMENTS MADE UNDER PRE-EXISTING ONSHORE AND OFFSHORE ROYALTY-IN-KIND PROGRAMS

30 CFR 208.13 (b) (1995) notwithstanding, amounts invoiced by the Department of the Interior and paid in full before the Effective Date of this Act for the purchase of federal royalty oil by a refiner pursuant to 30 U.S.C. Sec. 192 or 43 U.S.C. Sec. 1353 are hereby ratified and deemed to be the purchasing refiner's total obligation to the United States for such purchases subject to adjustment only for over or under deliveries of oil volumes.

Author: David Domagala a ~mms-denver-gh-4
Date: 03/18/98 09:44 AM
Priority: Normal
TO: Deborah Gibbs-Tschudy, David Hubbard, Vernon Ingraham at ~MMS-DENVER-85-2,
Donald Gilman at ~MMS-DENVER-85-2, Robert Prael at ~MMS-DENVER-85-2,
James McNamee at ~MMS-DENVER-GH-1, Linda Shishido-Sheahan at ~mms-denver-85-1,
Kenneth Vogel at ~mms-denver-85-1
CC: David Domagala
Subject: Results of Refiner Negotiation Premeeting

The short answer to the refiner request to ratify all prices in the past in order to attempt to negotiate prices for the future is no. It is not a valid option for MMS to undertake given all the political pressures surrounding the program and the current negotiations with Wy Refining.

The letter from the refiners also asks for relief from the administrative fees and surety requirements. It was viewed that the administrative fees are very low as it is and any change in the pricing mechanisms would result in more work for MMS rather than less. As a result; our position will be no relief for administrative fees. As for the surety, Vern, Don and Bob will discuss among themselves the possibility of reductions in this area.

The next meeting with the refiners is set for the 27th at 10:00 in the Bldg. 85 conference room. Dave D. and Linda S. are to prepare detailed analyses of:

X-5, X-4

March 9, 1998

VIA FAX 303-231-3362

Minerals Management Service
Lakewood, Colorado

Attn: Ken Vogel, Valuation Division

Re: Small Refiner Royalty-in-Kind Program

Dear Ken:

This letter is being sent on behalf of the following four undersigned companies: Gary-Williams Energy Corporation, Giant Refining Company, Calcasieu Refining Company and Placid Refining Company. As you know, each of our four companies is currently a party with the Minerals Management Service to a Contract for the Sale and Purchase of Government Royalty Oil. Each of our contracts was entered into in October, 1994 and is for the purchase of RIK oil being produced from off-shore leases.

We first wanted to thank you for the opportunity which MMS has given us to discuss the problems surrounding royalty valuation issues and to address potential solutions to these issues. Given the controversy surrounding the Wyoming Refining case in particular, and the issue of retroactive pricing in general, we can probably all acknowledge that this is a very difficult issue to resolve, both for industry and the MMS.

In the February 20, 1998 meeting at MMS' offices in Lakewood, Colorado and in conversations between MMS and the small refiners, MMS has stated its desire to negotiate a price formula into all of the small refiner RIK contracts. We certainly agree that price certainty is crucial to the on-going viability of the small refiner RIK program. Price certainty for both past and future deliveries under the RIK contract makes the RIK barrels much more attractive to the small refiner than under the present system, which in turn allows the small refiner to place a higher value on barrels offered by the MMS.

Ken Vogel
Page 2
March 9, 1998

While we welcome the chance to sit down with MMS and renegotiate the pricing provisions of our existing RIK contracts, there are several issues of the utmost importance to the small refiner which must be resolved prior to the small refiner being able to place a value on MMS barrels. Once these issues are resolved, we can place a value on MMS barrels and immediately begin price discussions with the MMS.

Retroactive Pricing

By far the most important issue to the small refiners is the issue of retroactive price adjustments. Prior to commencement of any price renegotiations, the MMS and the small refiners must resolve the issue of retroactive price adjustments. To us, assurance of no retroactive price adjustments is simply a matter of fairness and basic contract interpretation. All four of our companies have paid all amounts invoiced to us by MMS for crude oil purchased under the RIK contracts. To increase the price several years after the purchases were made simply is not fair to the small refiner. One of the principal aspects of the RIK program which allows most small refiners to remain in the program is the right under the RIK contract to terminate deliveries of royalty oil from certain leases. If the small refiner determines that oil from certain RIK leases is uneconomical, the small refiner may terminate deliveries from those leases. The MMS' retroactive pricing policy totally abrogates this contractual right of the small refiner under the RIK contracts. For this contractual provision to have any meaning at all, the MMS should reverse its current pricing policy and ratify the amounts already paid by the small refiners under the current contracts.

Future Deliveries

In addition to retroactive pricing, three other items need to be addressed to make the RIK program more commercial.

1. Price Certainty. The price invoiced to the small refiner must be a final price and not subject to audit by MMS in future years.

2. Letters of Credit. It is assumed, with price certainty, the letter of credit requirement will be reduced. We request that the amount of the letter of credit be calculated on an industry standard of sixty (60) days of crude deliveries.

Currently 100 days

3. Administrative Fees. We are assuming from the discussions at the February 20, 1998 meeting that the RIK program administrative fees will be lower than under the current program. Please inform us as to what the administrative fees will be for future deliveries.

As stated previously, price certainty on both past and future deliveries as well as smaller letters of credit and lower administration fees, will allow the small refiner to place a higher value on crude oil offered by the MMS. Please respond to these issues as soon as possible, as we are anxious to move forward with price renegotiations under the RIK contract. Once the above issues are settled, we would be able to meet with the MMS either individually or as a group. We look forward to hearing from you.

Very truly yours,

GARY-WILLIAMS ENERGY CORPORATION

Donald A. Hamilton
Vice President, Raw Material Supply

GIANT REFINING COMPANY

Lyle Wethers

Luke Wethers
Vice President, Raw Material Supply

PLACID REFINING COMPANY

Dennis Cernosek
Manager, Crude Oil Supply

CALCASIEU REFINING COMPANY

Murray Hetherwick
President